SERPs are a valuable tool to help retain and attract talented leaders.
In an environment where 63% of companies report that employee retention is their top concern\(^1\), a talented leadership team is critical to keep on board. Retaining high-performing credit union executives could rest on whether you can provide them a more comfortable retirement.

There are limitations on how much credit union executives can contribute and receive from traditional retirement plans, such as a 401(k) or pension plan. These limitations make supplemental executive retirement plans (SERPs) a viable and important complement to these conventional plans.

SERPs are nonqualified retirement plans that provide benefits beyond those offered by qualified plans. Although qualified plans may have more tax advantages, nonqualified plans offer more flexibility in customizing contribution amounts and timing of distributions. SERPs allow you to build a powerful supplemental benefits package, which can create greater loyalty to the credit union.

Create a customized program.
As more CEOs approach retirement, retaining and attracting capable leadership has never been more critical. In the next two years, 10% of credit union CEOs are expected to retire\(^2\), and 2/3 of new CEOs are hired externally from the financial services industry\(^3\). SERPs can help credit unions stay competitive in the search for new talent, and to strengthen leadership continuity.

Nearly 60% of credit unions offer SERPs to their CEOs. Of these credit unions, 75% offer 457(b) plans; 55% offer 457(f) plans; and 30% offer both types.\(^4\) The 457(b) plan supplements a 401(k) plan and defers income taxes on contributions until the benefits are paid to them at retirement. Although 457(b) plans allow for self-direction of investments, they have a contribution limit, which is $18,000 for the 2016 tax year.

A 457(f) plan has no contribution limits, and taxes are paid in the year the “risk of forfeiture” lapses—when the executive becomes vested, which is typically when the benefit is paid. Plans can be designed with multiple vesting dates to spread payments and create ongoing retention incentives. The credit union owns the 457(b) and (f) plan assets until distribution.

Life insurance-based plans can be a more cost-effective alternative to 457(b) or (f) plans. The credit union can lend the executive money or offer a bonus to pay the annual premiums, and the executive owns the policy. These plans have no program limits, and income from life insurance can be withdrawn income tax-free.
Tailoring a supplemental benefits package to the executive’s needs may create greater loyalty to the credit union. Some might value a 457(b) or (f) plan. Others might even prefer other benefits in addition to retirement incentives, such as additional life or disability insurance. Long-term care insurance can also be an important component as it helps to preserve nest eggs from medical costs Medicare doesn’t cover.

**Insight to Implementation**

While SERPs support CEOs in their retirement, they also help credit unions recruit and retain top executives, drive leadership continuity, and meet strategic and financial goals. So why don’t more credit unions have plans in place?

Some credit union boards might have limited knowledge of SERPs, or deal with competing priorities or a different executive compensation philosophy. The logistics of offering a SERP—including due diligence and funding the account—might also be a challenge.

Regulatory provisions allow a credit union to fund SERPs through formerly impermissible investments. A well-defined investment allocation plan minimizes risk while maximizing return to create additional income used to provide the added benefits. Investment and insurance options such as business-owned life insurance (BOLI), annuities, and managed investment accounts are commonly used to fund SERPs.

Before putting a plan in place, your board must perform due diligence to analyze the risks associated with a SERP, evaluate alternatives, and understand ongoing compliance responsibilities. Working with a third-party vendor with experience in this area can help your board streamline these tasks and ensure you are not missing important details.

Competition for top executives continues to intensify. Quality executives are in high demand, and losing an executive to a competitor is costly. Supplemental benefits can strengthen your succession plan and preserve leadership quality and continuity.

*John Pesh* is Director of Executive Benefits at CUNA Mutual Group. For more information about SERPs, contact him at 800.356.2644, ext. 665.8223.

---

1. 2015 Compensation Best Practices Report, PayScale
2. CUNA Salary Staff Report 2016-17
4. CUNA CEO TOTAL COMPENSATION REPORT, 2016-2017

Proprietary insurance is underwritten by CMFG Life Insurance Company. Proprietary and brokered insurance is sold by CUNA Mutual Insurance Agency, Inc., a wholly owned subsidiary. This insurance is not a deposit and is not federally insured or guaranteed by your credit union. For more information, contact your Executive Benefits Specialist at 800.356.2644. Representatives are registered through, and securities are sold through, CUNA Brokerage Services, Inc. (CBSI), member, FINRA/SIPC, 2000 Heritage Way, Waverly, Iowa 50677, toll-free 866.512.6109. Insurance and annuity products are sold through CMFG Life Insurance Company. Non-deposit investment products are not federally insured, involve investment risk, may lose value and are not obligations of or guaranteed by the credit union.